

Kate Hall
Strategic Commercial Assets Division
11 January 2023

Deputy First Minister and Cabinet Secretary for Covid Recovery
Minister for Business, Trade, Tourism, and Enterprise
Minister for Transport

Ferguson Marine - Ferries 801 and 802 - Progress Update: October 2022

Purpose:

1. The purpose of this submission is to update Ministers on progress towards the delivery of ferries 801 and 802 based on the October 2022 reports from both Ferguson Marine Port Glasgow Ltd. (FMPG), and Caledonian Maritime Assets Ltd. (CMAL).
2. Ministers should note that these reports were prepared by CMAL and FMPG in October and some information will have been superseded given the build has continued to progress since that time. The commentary therefore reflects the information in the October 2022 report to ensure a clear public record and chronology.

Headlines:

- FMPG updated Parliament on 28 October 2022 regarding the potential 36-week lead time for delivery of vacuum sensors for the LNG system;
- There are still a significant number Owners Observation Reports (OORs), to resolve at this stage in the build. Timescales and dates for carrying out the works have still to be established;
- Several major sub-contractors are due onsite from November onwards, all carrying out critical works in already congested areas on the ship. This has been highlighted as major risk going forward by both CMAL and the yard;
- CMAL are assisting the yard in relation to the design process due to poor legacy design and in meeting criteria to gain approval from the ^[Redacted]. Closure of final design gaps is needed -which at this late stage of the project remains a significant risk to the project;
- Project 802 is making limited progress against the dates given in the level 0 plan. Main sub-contractors are yet to commence work on hull 802. The yards focus remains committed on project 801;
- Installation of pipework spools is now back on schedule;
- The previous slippage in the 801 electrical programme to meet priority dates for main commissioning activities has been reported this month as back on track. This continues to be monitored by FMPG SMT.

Background

3. This monthly update reflects on the progress towards the delivery of vessels 801, and 802 made in October 2022. Officials meet with CMAL on a weekly basis to discuss progress, with the monthly update meeting held on 15 November 2022 to discuss progress made in October 2022.
4. The Chair of the Board of Directors of Ferguson Marine is aware of the content of this monthly performance update and agrees with the position presented.

Overview of progress in October 2022

5. The main points to note from the CMAL report on **801** are:
 - The main work aspects on the ship relate to hot work completion and commissioning;
 - The level of rework and legacy issues, due to poor legacy Engineering Design and legacy workmanship issues. This has the potential to impact on the overall delivery schedule;
 - The yard is monitoring the capacity for main equipment suppliers to mobilise resources to meet planning dates for commissioning activities;
 - CMAL have instigated several meetings with the yard to discuss the closing of OORs. Since June the yard have only closed out 28 OORs, leaving 135 still to be completed.

The main points from CMAL on **802** are:

- 802 is making limited progress against the dates given in the level 0 plan, due to the yards focus on the 801 build;
- The 802 Programme is currently under ongoing a review to align with proposed new launch date and allocation of labour;
- Sub-assemblies have been put on hold whilst final design review process takes place with the principal design contractor.

Key challenges around 801 are:

- Installation and termination of the ship's cables;
- Completion of pipework to meet commissioning dates, including addressing pipe clashes;
- Close out of OORs;
- Closure of design gaps;
- Unknown and emerging rework;
- Delivery and completion of production drawings and accuracy of production drawings;
- Availability of experienced supervisors and managers;
- Shortage of key trades;
- Availability of [Redacted] for commissioning engineers;
- Coordination of multiple activities in busy compartments such as the engine room;

- Verify Hull 801 Deadweight;
- Commissioning of LNG System;
- Lack of familiarity with final stages of finishing the vessels - surveys, documentation, certification.

Progress reporting

6. CMAL and FMPG are continuing to progress a joined-up approach to reporting, in line with the recommendations of Audit Scotland. This again reflects the closer working relationship of CMAL and FMPG.

7. This collaborative working is ensuring that both parties are agreed on the challenges and are working to secure mitigations.

Financial Reporting and Assurance

8. To 31 October 2022, c£ 76.7m has been spent on 801 and c£37.7m on 802 since public ownership

9. Financial assurance over the costs to complete was conducted the by FMPG Senior Management Team (SMT) and reviewed during the FMPG Board meeting on 22 September. As reported last month, FMPG CEO wrote to NZET committee on 28 September 2022 to inform the Committee that his estimate of the cost to complete had risen to £202.6m (including a contingency of £6.2m). This is an increase of £80.6 million since March 2022. FMPG have also increased the warranty provision from £3.5m to £7m.

10. Scottish Ministers have instructed an external commercial advisor to complete a detailed due diligence over the cost increases and test the assumptions underpinning the revised cost estimates. This assurance work is ongoing and set to conclude early 2023.

Relationships and engagement

11. A series of regular calls between the Deputy First Minister, and FMPG has been organised.

Next steps

12. In terms of next steps, FMPG's priorities are:

- Continuing to press the supplier on the delivery of LNG sensors to meet current completion forecast;
- Closing out priority OORs;
- Continuing to improve the metrics in the weekly and monthly progress reports;
- Continuing assessment of the planning figures for delivery of Hull 802;
- Continuing discussions around commercial partnership opportunities;
- Ongoing financial assurance work;
- Validation of the weight of hull 801;

- Monitoring and reporting on the [Redacted] on Cable installation.

13. In addition to core business as usual activity, the key next steps for officials are:

- Inducting the new Chair - including meetings with DFM, Permanent Secretary and DG Economy;
- Continuing to support work to improve the metrics in FMPG's progress reports and ensuring that reporting links spend to the delivery of individual work packages and performance targets;
- Continuing to work closely with FMPG's finance, planning and programme teams around the financial assurance of the delivery of vessels 801 and 802;
- Ongoing engagement to scrutinise the costs associated with delivery, and monitor spend against projected costs;
- Continuing the consultancy work required to establish the nature and cost of the capital upgrades required to improve the yard's competitiveness.

Conclusion

14. Ministers are asked to note the content of this update.

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Copy List:	For Action	For Comments	For Information		
			Portfolio Interest	Constit Interest	General Awareness
Deputy First Minister and Cabinet Secretary for Covid Recovery			X		
Minister for Transport			X		
Minister for Business, Trade, Tourism and Enterprise					X

Permanent Secretary DG Economy Chief Executive Transport Scotland Director Economic Development Kate Hall [Redacted] [Redacted] [Redacted] [Redacted] [Redacted] Frances Pacitti [Redacted] [Redacted] [Redacted] [Redacted] Leanne Dobson John MacFarlane Kate Higgins [Redacted] [Redacted] Comms Finance and Economy Comms Transport Scotland

ANNEX A – CMAL MONTHLY UPDATE ON PROGRESS TOWARDS DELIVERY OF 801 AND 802 – October 2022

- separate document

ANNEX B – FMPG MONTHLY UPDATE ON PROGRESS TOWARDS DELIVERY OF 801 AND 802 – October 2022

- separate document